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Part 1

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MEMORANDUM ON MEASURES FOR
DEALING WITH THE BERLIN SITUATION

1. The United States Government has given urgent and intensive consideration to the manner in which the Soviet threat to the Western position in Berlin should be met. In this process, searching analysis has been undertaken of Soviet objectives and tactics, and of the resources, and the alternative means of employing them, available to the Western Alliance for dealing with the situation they present. The United States has now reached certain conclusions as to the courses of action which it believes should be followed. This memorandum is intended to describe briefly these conclusions and in so doing to serve as a basis for initial consultations among the four Western Powers on the subject.

2. The Soviet threat to the Western position in Berlin has existed in the same general form since 1958. The United States believes, however, that the West must assume for purposes of arriving at its own policy that the USSR is in earnest in its stated intention to sign a separate peace treaty this year with East Germany which will, in the Soviet view, bring to an end Allied rights in Berlin.

3. The United States believes that in addition to the objectives in Central Europe which have led the USSR to pursue this course of action, a key factor in Soviet policy formulation is the belief that, in the end, the West will not fight to defend its position in Berlin.

4. In the view of the United States, therefore, Western policy should consist of two principal elements: 1) a clear demonstration of Western determination to defend the Allied position in Berlin, at the risk of war if necessary; and 2) an active diplomatic program, including negotiations with the Soviet Union, designed to provide the Soviet leadership an alternative course of action which does not endanger vital Western interests in Berlin.

5. With respect to the first element, which might be characterized as the establishment of a more effective deterrent and capability for military action, the United States proposes to begin immediately a series of measures to increase its armed strength. These steps will be taken with due regard to the dangers of a spreading arms race. We continue to stand ready to negotiate on the reduction and control of armaments. However, at this time, the greatest danger to peace is the failure to take the measures outlined in this memorandum.

6. The United States, for these reasons, proposes to take as its first steps measures which will initiate a long-run build-up of military

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strength and which will not be of such a dramatic and emergency nature as to exacerbate the crisis. It intends, more specifically, to undertake:

a. A request to the Congress, to be made on Wednesday, July 26, for a supplementary defense budget of three and two tenths billion dollars to add to the approximately three billion dollar supplementary request already made. This would provide the United States with progressively stronger forces in the months ahead, giving it a capability of moving an additional six divisions to Europe at the end of the year or at any time thereafter if our allied decision is that the situation warrants this. The United States would also have available supplementary units of tactical and transport aircraft and increased naval strength especially in the field of anti-submarine warfare. Further, the United States is acting to increase immediately by fifty per cent the number of its bomber aircraft on ground alert status. Attached to this memorandum is a paper setting forth this program in more detail, together with our thoughts on NATO-wide measures in this field.

b. Substantial measures in the field of civil defense (shelter construction, recruitment and training of personnel, etc.).

7. In addition, the United States believes that the following precautionary and planning efforts should be undertaken within the next few weeks:

a. Strengthen the position of West Berlin to sustain an interruption of access by reviewing and improving airlift procedures and the stockpile as necessary;

b. Review our Berlin contingency planning in the light of the present situation;

c. Complete Allied plans for use of a wide range of non-military countermeasures, including economic sanctions, upon interruption of access to Berlin or earlier as a warning and deterrent. A paper on the subject of economic sanctions is attached.

8. It will be of great importance to obtain the maximum support of world public opinion for the Western position and policies. The United States has begun, therefore, and proposes to expand in cooperation with its Allies, an active public information program on a world-wide scale to this end. A preliminary quadripartite paper based on propaganda themes suggested by the British Government has already been agreed, and the attached paper is intended as a further step in the development of such a program.

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9. The United States regards it as of the utmost importance that the response to the Soviet threat be a joint undertaking on the part of the NATO Alliance. The unity of the West in the face of Soviet aggrandizement in Central Europe will in and of itself be a most powerful factor in deterring the USSR from its present course of action. The United States hopes, therefore, that in all aspects of this endeavor it will be joined by its Allies. In the military field particularly the United States believes that all NATO members should make an effort comparable to that which it is making. The United States realizes that cost and sacrifice will be involved, but believes that the Alliance must act vigorously to meet the present challenge. A clear willingness to bear increased burdens on the part of all our countries will be essential to convey to the Kremlin the needed impression of allied determination. We are prepared to join our allies urgently in working out a joint military program to this end. A joint endeavor of this nature will require the closest consultation at every step of the way, and suggestions will be made later in this memorandum for pursuing the initial stages of this consultation.

10. With respect to the second element of Western policy, an active diplomatic program, the United States foresees several possible courses of action. They shall be the subject of further intensive discussion among us, but it might be well at this stage to indicate in general terms what the United States may wish to propose in more detail later:

a. It might be well at an early date for us to have informal and quiet talks with the Soviet leadership, for example through our Ambassadors in Moscow, to probe the Soviet position, to warn of possible consequences of that position in terms of Allied military build-up, and to take advantage of any opportunities which might appear to move towards subsequent understanding on an arrangement which might be acceptable.

b. Thereafter we might wish to explore opportunities for Western political initiatives at an appropriate time. The timing of such initiatives would depend on a number of factors, among them the likelihood at any particular time that the Soviet leadership may have been sufficiently impressed by the Western deterrent efforts to be willing to settle for solutions acceptable to us.

11. The United States suggests that consultation begin at once, commencing with the Ambassadorial Steering Group. This Group would presumably wish to consider directives to guide the activity of Allied working groups in Washington on general aspects of the question, non-military countermeasures and psychological and propaganda problems; the quadripartite group on economic countermeasures; [redacted]

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12. Following the initial consultations of the Steering Group, the United States proposes consultations at a senior official level to take place in Paris for a week beginning July 28. This session would have the purpose of surveying and coordinating so far as possible the entire range of military, political, economic and psychological measures.

13. There would then follow meetings of the Western Foreign Ministers in Paris to review the state of preparations, settle outstanding problems and issue directives for further work.

14. After the Foreign Ministers meeting, it is proposed that one or all of the Foreign Ministers make an interim report to NATO and seek other member countries' views on the state of preparations.

15. If necessary, the senior level group could presumably remain for a few days in Paris to carry out the instructions of the Foreign Ministers.

Attachments:

1. The Military Program.
2. The Use of Economic Countermeasures in the Berlin Crisis.
3. Information Program in Support of Berlin Policy.

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INFORMATION PROGRAM IN SUPPORT OF BERLIN POLICY

SUMMARY

It is clearly desirable that an effective domestic and overseas information program be carried out in support of the political, economic and military actions undertaken by the United States and its Allies in relation to the Berlin situation. It should be the primary purpose of such a program to educate public opinion in the U.S. and overseas concerning the historical background of the Berlin issue, as well as the nature and implications of the Soviet threat of unilateral action to change the status of the city.

In organizing this information program it is contemplated that all appropriate U.S. public and private resources will be utilized and that these domestic resources will be augmented by facilities and resources which will become available as a result of coordination and cooperation with our Allies. Actions to be taken under the program will be designed to reach both the American audience and foreign target audiences. They will include such measures as the preparation and distribution of information materials on the Berlin question both here and abroad, periodic reports to the nation by the President and other key officials, briefing of representatives of American information media and non-governmental organizations, production of radio and TV shows on various aspects of the Berlin situation, coordination of the information activities of the U.S., Britain, France and Germany throughout the world and encouraging the cooperation of the member countries of NATO, SEATO, CENTO and OAS in support of the Western position on Berlin.

Many of the actions in the information program will be of a continuing nature while others will be dependent on actions in the political, economic and military fields.

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DISCUSSION

It is desirable that the measures undertaken by the United States and its allies in the political, economic and military fields designed to cope with the developing crisis over Berlin must be supported by an adequate public information program. It should be the purpose of this program to present in simple but forceful fashion the basic historical facts relating to the Berlin situation - how the United States, Britain and France came to be in Berlin, what circumstances have necessitated our continued presence in the city and why it is vital to our own national security and to the security of the free world that we defend our position in Berlin at all costs. With respect to targets our information program must be designed to reach four audiences - the American public, public opinion in those countries allied with us in NATO, SEATO, CENTO, and OAS, the governments and peoples of the so-called uncommitted countries, and the people behind the Iron Curtain.

With reference to the question of phasing it is clear that many courses of action to be undertaken in the information field will not be confined to one phase of the crisis but will be of a continuing nature. In other cases, the decision as to whether certain courses of action are to be undertaken and the timing of such actions will be dependent upon developments which can not be foreseen at this time. Such factors as the exchange of further communications between the West and the Soviet Union, the presentation of new proposals by either side, the possible development of a Foreign Ministers Conference or a summit meeting will clearly affect the nature and timing of propaganda actions. With these considerations in mind, the following schedule of actions is presented.

PHASE I

Present to September 17

During the initial phase our primary task will be to state the essential facts of the Berlin issue and to explain in terms which the various target audiences can understand the nature of the Soviet threat and its implications for them and for world peace. Stress should be placed on the human aspects of the Berlin situation without, of course,

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detracting from the juridical basis of the Western case. We should also emphasize that the threat to Berlin is of Soviet manufacture. A suggested list of themes to be employed by Western spokesman and information media is appended to this report. It might be noted that these themes have already been circulated to our missions in the NATO countries and to our posts in Belgrade, Bern, Moscow, New Delhi, Stockholm and Vienna.

1. Background Pamphlet on Berlin

A background pamphlet should be produced setting forth the basic historical facts of the Berlin situation and presenting a well-reasoned explanation of Western policy on the Berlin issue.

This publication should be widely distributed to opinion-molding groups in the American community, such as newspaper editors and publishers, radio and TV commentators, foreign policy associations, world affairs councils and similar organizations interested in international developments, key officials of the AFL-CIO, the principal religious groups and other non-governmental organizations with which the Department of State maintains liaison. The pamphlet should also be sent to all members of both houses of the Congress. (Action responsibility: State.)

As soon as the pamphlet is completed, it should be appropriately adapted and reproduced in foreign language versions for selected distribution by USIA through its overseas posts. It might be noted that this was done in the case of the pamphlet entitled, The Soviet Note on Berlin - An Analysis.

(Steps to implement this action are already underway. Mr. Ernest Lindley, now assigned to S/P in the Department of State, is preparing the first draft).

2. Preparation of Feature Articles on Berlin

Efforts should be made to stimulate the publication of feature articles on various aspects of the Berlin issue by both newspapers and periodicals. (Action responsibility: State, USIA.) (Note: This action has already been initiated by both agencies.)

3. Expanded

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3. Expanded Public Speaking Program

Immediate plans should be made to expand the public speaking program of the Department of State. To carry out such an expanded program consideration should be given to assigning to the Speaking Arrangements Section of the Department for periods of one or two months Foreign Service Officers on home leave or between assignments. As an important part of this program, influential platforms should be obtained for high-ranking officers of the Department, including the Secretary, the Under Secretary, the Counselor and other top officials. Efforts should also be made to enlist the services of specialists outside of the Department, such as Dr. Henry Kissinger and Dr. Hans Morgenthau. (Action responsibility: State.)

4. Briefing Conferences

By way of augmenting an expanded public speaking program special periodic conferences should be arranged for the purpose of providing thorough, authoritative background briefings on the Berlin situation for representatives of United States information media (press, radio, TV) from all parts of the United States, as well as for representatives of key non-governmental organizations.

In this same connection arrangements should also be made for regular background briefings in Washington for selected American and Allied correspondents accredited to the Department of State.

Such briefing will not only serve to keep the American public accurately informed concerning developments relating to Berlin but will provide a ready means of explaining the United States policy position on the Berlin issue. (Action responsibility: State, USIA.)

5. Presidential Reports to the Nation

The President should plan to make periodic reports to the nation on the Berlin situation. These reports could take the form of fireside chats as well as the customary statements at the beginning of Presidential news conferences.

It is recommended that the first of these reports be made shortly after the publication of the United States reply to the Soviet aide-memoire, perhaps in the form of an address to a joint session of Congress. (Action responsibility: White House.)

6. Special

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6. Special Radio-TV Programming

In support of the President's reports to the nation, a carefully spaced series of radio-TV speeches should be scheduled by appropriate members of the Cabinet including the Secretaries of State and Defense and the Director of USIA.

Cooperation of the major radio-TV networks should be enlisted with a view to producing a series of network shows dealing with various aspects of the Berlin situation. These presentations could include panel discussions and documentary films. (Action responsibility: State, Defense.)

7. Instructions to United States Chiefs of Mission

Appropriate briefing material should be sent to the Chiefs of United States Missions overseas for the purpose of providing them with the essential facts relating to the Berlin situation and the basic elements of the Western position on Berlin.

Mission Chiefs should be instructed to approach appropriate officials of the governments to which they are accredited with a view to explaining to them the background of the Berlin problem, and, where appropriate, pointing up the nature and implications for their countries of the Soviet threat.

Mission Chiefs should be urged to exercise initiative in presenting the Western point of view on Berlin developments in contacts with prominent individuals and groups in the local community. In this connection, speech outline material should be provided which could be adapted for local use. (Action responsibility: State, USIA.)

8. Provision of Background Material to Foreign Media

United States Missions abroad should make available on a continuing basis, to local information media and to opinion molders (individuals and organizations) appropriate information materials relating to the Berlin situation. Such materials should include books, pamphlets, and other publications, film strips and documentary films. (Action responsibility: USIA.) (Note: Preparation of these materials is already underway.)

9. Enlisting

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9. Enlisting Support of NATO Allies

Through our Permanent Representative to the NATO Council we should immediately encourage all member countries of the Alliance to draw upon their information media resources to promote the Western position on Berlin both domestically and, where appropriate, through their overseas posts.

Arrangements should be made within NATO for a continuing exchange of information on the psychological and propaganda aspects of the Berlin situation. NATO-wide on the spot coordination through NATO country diplomatic missions in certain key capitals should also be considered. (Action responsibility: State.)

10. - Quadrilateral Coordination of Information Activities

An effort should be made to coordinate U.S., British, French, and German information activities relating to Berlin in order to assure the maximum use of available resources and uniformity in propaganda themes and treatment. While such coordination should be carried out principally on a government-to-government basis, coordination of the information activities of the four powers in the field should also be encouraged. There will be cases in which the information activities of one of the four governments in a given area may, for historical or cultural reasons prove more effective than that of the others. In other cases, the facilities and resources of the four may differ, thus making local cooperation desirable. (Action responsibility: State, USIA.)

11. Provision of Background Material to SEATO, CENTO, and OAS

While for various reasons it may not be practical to attempt coordinated information activities within SEATO, CENTO and OAS on the Berlin issue, steps should be taken to make suitable background material on the Berlin problem available either through our representatives to these regional organizations or through appropriate liaison arrangements. (Action responsibility: State, USIA.)

12. Supporting Role of RFE and Radio Liberty

Arrangements should be made to provide RFE and Radio Liberty with adequate background material on the developing Berlin situation so that these stations will be in a position to lend effective support to the Allied position in their broadcasts to the Soviet Union and Eastern Europe. (Action responsibility: State.)

13. Organization

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13. Organization of Trips to Berlin

In view of the demonstrable success of the German program of 1958-1959 under which foreign journalists were brought to Berlin as guests of the city of West Berlin to obtain a first-hand insight into the Berlin problem, it is recommended that efforts be made to reinstitute a similar program in the immediate future. The Federal Republic has indicated its willingness to finance such a program again but it may be necessary to exert some friendly pressure to ensure the resumption of a visits program.

(Action responsibility: State, USIA.)

14. Suggested Themes for Use by Western Spokesmen and Information Media

The following is a list of suggested themes relating to Germany and Berlin to be employed by Western spokesmen and information media, as appropriate, in presenting the Western case. This list is not intended to be exhaustive and it is anticipated that other themes or variations of themes will suggest themselves as the crisis develops.

1. There is no need for a Berlin crisis: if one develops, it will be artificial and made in Russia.

2. The apparent reasonableness of Soviet proposals covers a calculated plan to usurp essential Western rights and to deprive two and a half million people of their only effective guarantee for freedom.

3. In proposing a so-called "free city" solution for West Berlin the Soviets are seeking to extend to West Berlin the control of the dictatorial Communist regime of East Germany which is totally unrepresentative of the 17 million people over which it holds sway. The true nature of this regime is clearly demonstrated by a study of the biographies of the individuals who head it. Its unrepresentative character is demonstrated by the flight of over two and a half million of its citizens since 1949.

4. The Russian assertion that West Berlin is part of the territory of the D.D.R. is quite untrue. They offer a "Free City of West Berlin" as a "concession"; in fact they ask us to give up our absolute rights for a doubtful leasehold with a built-in risk that this is a first step towards swallowing up West Berlin.

5. The West

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5. The West certainly do not desire war, nor will there be war if the basic situation is left as it is. But we are determined to take any necessary steps to safeguard our position.

6. The Soviets justify their demand for the conclusion of separate peace treaties with the "two German States" by the alleged "Militarism" and "Aggressive Plans" of the Federal Republic. This is an obvious pretext since the Soviet Union with its tremendous military potential can not and does not feel menaced by the Federal Republic whose defense forces are merely a component of the common NATO Defense System. The real aims of the Soviet demand are to perpetuate the division of Germany and to tighten its hold over Central and Eastern Europe in order to consolidate their basis for further advances into Western Europe.

7. Berlin may seem a remote European problem, but Mr. Khrushchev is playing with fire. If he persists he may bring us close to nuclear war. This will affect all the peoples of the world. It is important therefore that they realize clearly what are the issues involved and leave Mr. Khrushchev in no doubt of their feelings.

8. The Soviet position in Germany can be depicted in terms of imperialism. The West is striving for the self-determination of all Germans which the Russians have constantly frustrated.

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Estimated Impact of Western
Economic Sanctions Against the Sino-Soviet Bloc

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The Problem

The problem is to estimate the likely impact of a total embargo imposed, alternatively, by the United States, or the Western Allies (NATO plus Japan), against:

- a. The Sino-Soviet Bloc countries as a whole, or
- b. The USSR and its European Satellites, or
- c. East Germany

Strategic Aspects of the Bloc Economics

The Sino-Soviet Bloc countries as a whole comprise a formidable and largely self-sufficient economic unit. Their combined population is nearly one billion and gross annual output is now over \$350 billion. The primary objectives of economic activity are the development and maintenance of military strength, and rapid industrial growth, which has been averaging about 10 per cent a year.

The countries of the Bloc have consistently pursued a policy of attaining maximum economic independence from the West. This policy has been tempered by the desire to draw on the Western nations for advanced technology embodied in industrial equipment, and on the raw material resources of the Free World for those few commodities which either are not present in the Bloc at all or else are in insufficient quantities -- natural rubber, copper and certain agricultural products.

Total Sino-Soviet Bloc imports in 1960 amounted to nearly \$15 billions, of which less than \$5 billions or one-third was from the Free World, reflecting the policy of avoiding dependence on non-Communist powers. Of Free World trade, 50 percent was with the NATO countries and Japan. Since the death of Stalin, there has been a trend of increasing imports from the West, particularly in the case of the USSR, which is now importing roughly up to the limit of its ability to pay.

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Because of the highly diversified resource base of the Sino-Soviet Bloc economies, considered in the aggregate, and their generally advanced state of industrialization, the economic effects of a trade and transport embargo would be minimal in the long run. However, the short-run disruption would be significant, particularly to the attainment of some key industry goals of the USSR's current Seven-Year Plan (1959-65). Additionally, the chronic food deficit of the European Satellites is currently compounded by the food shortage of Communist China, so that the loss of planned imports of Free World grain would have some additional disruptive effects within the Bloc.

Estimated Impact of a Unilateral Embargo by the United States

The United States already maintains a complete embargo on trade with Communist China, and also a higher level of restrictions on exports to the European Bloc than do the Western European countries. Other U.S. measures which restrict trade with the USSR are the denial of Most-Favored-Nation tariff treatment and the provisions of the Johnson and Battle Acts which prohibit governmental and private loans. For these reasons, the volume of U.S. trade with the Communist world is small and non-strategic in nature.

Total exports of the United States to the Communist Bloc amounted to only \$193.4 millions in 1960. Of this total, \$143.1 millions, consisting primarily of grain and raw cotton, went to Poland. The comparatively large volume of shipments to Poland is a reflection of our policy to assist that nation in maintaining the measures of freedom and independence from Soviet domination thus far achieved. An embargo on either the Sino-Soviet Bloc or the USSR and its European Satellites would, of course, cut off these agricultural products to Poland. This would decrease Poland's freedom of negotiation with the USSR, but would not impose any serious problems on the Bloc as a whole as long as other Free World suppliers remain available.

U.S. exports to East Germany amounted to \$3.9 millions in 1960, of which almost two thirds were steel, largely sheet. This is less than one per cent of East Germany's steel consumption, and apart from some administrative inconvenience in adjusting suppliers, no economic effects could be expected from embargo.

U.S. exports to the USSR amounted to about \$39 millions in 1960, and were composed largely of textile machinery and steel products. The denial of textile and other civilian machinery in such limited quantities would have little economic effect on the USSR because virtually identical equipment is available in Western Europe. The steel products going to the USSR are, it is believed, not for strategic purposes but for the production of civilian goods. U.S. steel accounts for about 5 per cent of such Soviet imports from NATO countries, and is not a significant addition to total USSR availabilities.

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Estimated Impact of a NATO (plus Japan)

Embargo on the Sino-Soviet Bloc Countries

The Bloc Wide Case

Under generous assumptions of impact, the economic loss which the NATO countries (including Japan) could impose on the Sino-Soviet Bloc through embargo would be about \$4 billions. The denial of the \$700 million of imports currently moving to the USSR, the \$1.2 billion flowing into the European Satellites and the \$500 million currently being imported by China would cause an immediate decline in output in the Bloc as a whole and most of the loss of \$4 billions, or about 2 months growth, would be felt in the first six months following the imposition of the embargo. Recognizing the alternatives which actually would be open to the Bloc, the fact that, in part, denied imports of steel, machinery, etc., could be obtained in non-NATO countries such as Sweden, Austria, and Switzerland, and recognizing the possibilities for substitutions from Bloc sources, the actual loss expected would be smaller than this. The major burden would be felt by the European Bloc.

At present levels the seaborne foreign trade of the Sino-Soviet Bloc is nearly 100 million tons annually, of which almost 65 percent moves on Western, primarily NATO shipping. The imposition of economic sanctions would reduce this volume nearly by half allowing the Bloc to carry, on its own vessels, over 60 percent of the reduced total. To carry the remainder would require about 2 million deadweight tons of shipping which the Bloc would have to charter from non-NATO sources. The most readily available non-NATO shipping is represented by the tramp fleets of Panama, Liberia, Honduras, Sweden, Finland, and Yugoslavia. These fleets total over 20 million DWT and the Bloc should have little trouble chartering the 2 million DWT which it would need.

The Chinese Case

There are no strategic or vital industrial imports from NATO countries into Communist China that cannot be replaced by imports from the Soviet Bloc or other Free World countries. Two Chinese imports, grain and chemical fertilizers, would be seriously affected by an embargo by the NATO powers participated in by Australia and Japan. In order partially to overcome the effects of two successive bad harvests, China has contracted to buy more than 5.5 million tons of grain (primarily wheat) from Canada and Australia during 1961. In recent years, Chinese import of chemical fertilizer from NATO countries has been nearly one million tons annually, or about one-fourth of total domestic supplies.

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If Chinese trade with NATO, Australia, and Japan were terminated, it is unlikely that either the grain or chemical fertilizer imports could be replaced by imports from the Soviet Bloc. It would not be possible for China to replace the bulk of these grain and fertilizer imports directly from other countries in the Free World, and any attempts to obtain these imports through an intermediary would be extremely difficult. The only major wheat exporter not participating in the embargo would be Argentina. Exports of wheat from Argentina have declined sharply in recent years, and on 1 June 1961 the total supply of wheat in Argentina available for export and carryover was only one million tons. China could substitute rice imports from Burma and other countries for perhaps a quarter of the planned imports of wheat from Canada and Australia, although it would be more difficult for China to obtain the same favorable credit terms for rice that now apply to its purchase of wheat.

The loss of grain imports and fertilizers would compound already critical food shortages, although probably the regime would impose severe rationing which would provide adequately for the party, the military establishment and the industrial labor force.

The Soviet Bloc Case

If economic sanctions are levied only against the USSR and the European Satellites leaving China free to carry on foreign commerce, the aggregate impact estimated above is obviously lessened by the amount of damage estimated for the Chinese economy. As for the impact of the sanctions against the USSR and the European Satellites, it would remain about the same as in the case of sanctions against the entire Bloc. It is not likely that the availability of Western markets to the Chinese alone would be any more than a fairly long-run advantage to the USSR and the European Satellites.

The impact of an embargo would fall unevenly on individual sectors of the Soviet economy. In spite of the general validity of Khrushchev's repeated assertions that "in our economic development we rely wholly on the internal forces of our country, on our resources and possibilities . . . Irrespective of whether or not we shall trade with western countries . . . the implementation of our economic plans . . . will not in the least be impeded," it is clear that it will be difficult for the Soviet economy to fulfill certain key investment plans without recourse to imports from NATO countries.

Pursuant to the requirements of the Seven-Year Plan, Soviet imports during 1961-65 will continue to focus on machinery and equipment particularly for the chemical industry, for rail and water transport, and for light and food processing industries. Other Soviet import priorities include metallurgical equipment, metalcutting machine tools, equipment for the

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electronics industries, and oil field equipment, particularly large diameter pipe for oil and gas transmission. The priority expansion of the chemical and petrochemical industries postulates substantial imports of chemical equipment, particularly for plastics and synthetic fiber production, to compensate for lagging technology and inadequate manufacturing capacity in the domestic machine building industry.

Plans for modernizing and improving Soviet transport capabilities -- an essential element of the over-all Plan -- call for sizeable imports of merchant shipping and railway equipment to effect a saving in domestic plant expenditures. Similarly, the more rapid growth in consumer goods production, only recently reiterated by Khrushchev as a priority objective of the current Plan, is based in part on substantial imports of textile and food processing equipment to obviate the need for extensive domestic investments in research and development by providing up-to-date plants and installations.

Most of the import requirements generated by the Seven-Year Plan will be satisfied, as in the past, in trade with the Sino-Soviet Bloc. For the fulfillment of plans for certain industrial sectors, however, imports from NATO countries are significant. For example, without imports of chemical equipment and technology from NATO countries (such imports have increased more than tenfold between 1956 and 1959) prospects for fulfillment of planned output in fertilizers, plastics, synthetic fibers and synthetic rubber, are doubtful. Khrushchev himself has admitted that imports from capitalist countries, primarily from the U.S., the U.K. and West Germany, would provide the USSR with "quicker fulfillment of its program for the construction of new chemical enterprises without wasting time on creation of plans and mastering of the production of new types of equipment." In sum, NATO denial of certain kinds of chemical equipment to the Soviet Bloc (and in spite of the diversion of such imports to other sources of supply) would impede production of the required product mix of equipment for the Bloc chemical industry, principally because of the technical problems involved in developing new chemical equipment, plant and technology.

Similarly, while imports of rolled steel from NATO countries have supplemented domestic production, such imports in 1960 have accounted for little more than 2 per cent of total Soviet supply (a larger share of Satellite supply) and overall Soviet plan goals for crude and rolled steel are not contingent on imports from NATO. For specific steel shapes, however, imports are a considerably larger share of Soviet supply. Completion of the ambitious Soviet pipeline program with its requirements for large diameter pipe have imposed a heavy burden on Soviet Bloc steel producers. It is likely that the Bloc will face deficits in the production of large diameter pipe at least through 1963 and possibly through 1965 and beyond -- shortfalls for which the Bloc will have to compensate by imports of pipe from NATO countries if it is not to suffer delay in its pipeline program.

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The disruptive effects of a NATO embargo on food exports to the Soviet Bloc could be minimal, were it not for the large requirements of Communist China. The USSR continues to be a large overall net exporter of grain, with the chronically food-deficit Satellites accounting for about three-quarters of the principal agricultural commodities exported by the USSR. With the exclusion of China, a NATO denial of grain exports to Eastern Europe (NATO exports of grain to the USSR, almost exclusively from Canada, are relatively small and destined largely for its more remote far-east regions) could be compensated by a diversion of Soviet grain shipments from NATO countries to Eastern Europe. In the two-year period 1955-60, the Soviet net export position in grain to the NATO area was approximately equal to the Satellite net deficit position with the same area. Again excluding Chinese requirements, the diversion of Soviet grain shipments to Eastern Europe, and Satellite food exports from Western to Bloc recipients, coupled with increased purchases of sugar, rice, tropical fruits and vegetables and other foodstuffs from underdeveloped areas, could do much to mitigate the disruptive effects of NATO sanctions.

The impact of the denial of NATO shipping to the USSR and the European Satellites is similar to that estimated for the entire Sino-Soviet Bloc except that the amount of shipping which the Bloc would have to charter from non-NATO countries would only be about 1.5 million DWT. This amount would be readily available among the tramp fleets of non-NATO countries.

The embargo would be expected to have no impact on the Soviet military program. Some redirection of investment activity would be expected in order to compensate for the loss of capital goods imports from the NATO countries. The effect would probably be focused mainly in the Soviet consumer goods industries, and perhaps housing as resources were diverted to maintain the Soviet military program and to supply the industrial material needs of the Satellites. Depending upon the degree of dislocation that stems from the readjustment process and the extent to which the USSR fills Satellite needs, the overall impact upon Soviet economic growth would range from negligible to a very small decline. It is probable that the Soviet consumer would bear the brunt of any such decline.

The East German Case

Despite East German official announcements suggesting the contrary, only a very marginal reduction in current dependence on imports from NATO countries as a whole has been affected by means of changes in East German economic plans and foreign trade arrangements since the latter part of 1960. The East German regime apparently has been forced to adopt a policy of only gradual reduction in the range of commodities for which the East German economy is entirely or mainly

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dependent on NATO countries. In order to reduce greatly its current dependence on imports of key commodities -- particularly steel -- East Germany and other Soviet Bloc countries would have had to make economic adjustments, incurring costs equivalent to a substantial portion of the loss from an embargo.

Shipments from NATO countries continue to represent approximately one-sixth of total East German imports. As before, a significant portion of these imports consists of commodities which are of special importance to the East German economy and are in short supply within the Soviet Bloc. East German dependence on NATO also remains significant for imports of new technology. Although West Germany continues to provide by far the major portion of East German imports from Western Europe, the relative importance of trade with other NATO countries has increased significantly. These countries currently are providing a substantially larger share of the most important commodities imported by East Germany from NATO -- steel, particularly high quality steels, chemicals, and machinery (including equipment for whole chemical and metallurgical plants).

It is doubtful that other industrialized Western countries (Austria, Sweden, and Switzerland) would be able to provide these goods in the amounts and types adequate to the fulfillment of East German needs now covered by supplies from NATO countries. The necessity to concentrate purchases in a few markets would add significantly to East Germany's marketing problems.

East Germany, therefore, would probably suffer significant economic losses in the event of a NATO embargo. In December 1960 it was estimated that the total loss to the East German economy during the first six months following a general NATO embargo would perhaps approximate \$250 million or, at an annual rate of \$500 million, approximately two-thirds of one year's increment to total industrial output (or one-half of one year's increase in gross national product). Failure to receive current imports from NATO of metallurgical products and materials could result in a decline of approximately 10 percent in East German supplies of finished steel. A cut of 10 percent in steel supplies could result in a proportionate cut in the output of the engineering industries, a cost of about \$250 million on an annual basis. The cost resulting from the loss of other bottleneck items might increase this amount to \$400 million. The denial of the remainder of East German imports might create an additional loss in the value of output on the order of \$100 million.

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These estimates represent only a general order of magnitude and, as such, are a reasonable measure of current East German vulnerability. However, as a result of improved contingency planning, which is presumed to be more comprehensive and specific than before, and assuming broad support from the rest of the Bloc, the duration of the period of substantial economic disruption has probably been reduced somewhat from 6 months to perhaps 4 or 5 months. Economic losses would then decline steadily until a new structure of priorities, permitting supplies of commodities once again to be in balance with requirements for them, had been achieved.

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NATO (Including Japan) Trade with Sino-Soviet Bloc, 1959
(Millions of U.S. dollars)

	Bloc	Per- cent	European Bloc	Per- cent	NATO Exports		USSR	Per- cent
Total	<u>1,874.0</u>	<u>100.0</u>	<u>1,527.0</u>	<u>100.0</u>	<u>1,080.0</u>	<u>100.0</u>	<u>447.0</u>	<u>100.0</u>
Food, Beverages, Tobacco, Fats and Oils	250.1	13.4	250.0	16.4	198.0	18.3	51.9	11.6
Crude Materials, inedible except Fuels	197.5	10.5	177.8	11.6	134.0	12.4	43.9	9.8
Mineral Fuels, Lubricants and Related Materials	30.4	1.6	30.1	2.0	30.1	2.8	--	--
Chemicals	243.1	13.0	142.6	9.3	119.8	11.1	22.8	5.1
Manufactured Goods	739.6	39.5	543.5	35.6	359.4	33.3	184.1	41.2
Of Which - Iron and Steel	(393.9)	(21.0)	(306.8)	(20.1)	(190.0)	(17.6)	(116.9)	(26.1)
Machinery and Transport Equipment	393.0	21.0	366.2	24.0	226.1	20.9	140.1	31.3
Other Merchandise and Miscellaneous Transactions	19.7	1.1	16.9	1.1	12.7	1.2	4.2	0.9

NATO (Including Japan) Trade with Sino-Soviet Bloc, 1959 (continued)
 (Millions of U.S. dollars)

	Bloc	Per- cent	European Bloc	Per- cent	European Satellites	Per- cent	USSR	Per- cent
Total	1,981.0	100.0	1,735.4	100.0	1,023.7	100.0	711.6	100.0
Food, Beverages, Tobacco, Fats and Oils	494.7	25.0	432.9	24.9	316.9	31.0	116.6	16.6
Of Which - Wheat	(81.4)	(4.1)	(81.4)	(4.7)	(22.7)	(2.0)	(24.1)	(1.1)
Crude Materials, inedible except Fuels	518.1	26.2	402.4	23.2	121.8	11.9	280.6	39.4
Mineral Fuels, Lubricants and Related Materials	355.5	17.9	344.6	19.9	180.6	17.6	164.1	23.1
Of Which - Coal	(149.4)	(7.5)	(139.0)	(8.0)	(97.6)	(9.5)	(41.4)	(5.8)
Petroleum	(204.9)	(10.3)	(204.5)	(11.8)	(81.8)	(8.0)	(122.7)	(17.2)
Chemicals	118.5	6.0	110.5	6.4	78.5	7.7	31.9	4.5
Manufactured Goods	375.6	19.0	333.7	19.2	226.3	22.1	107.4	15.1
Machinery and Transport Equipment	98.1	4.9	98.0	5.6	88.1	8.6	9.9	1.4
Other Merchandise and Miscellaneous Transactions	20.7	1.0	13.2	0.8	11.5	1.1	1.8	0.2

Source: UNCTAD

NATO (Including Japan) Exports to Sino-Soviet Bloc - January-September 1960 1/
(Millions of U.S. dollars)

	Bloc	Per-cent	European Bloc	Per-cent	European Satellites	Per-cent	USSR	Per-cent	Communist Far East	Per-cent
Total	1,697.4	100.0	1,414.3	100.0	867.5	100.0	546.8	100.0	283.1	100.0
Food, Beverages, Tobacco, Fats & Oils	209.9	12	209.3	15	171.1	20	38.2	7	0.6	0.2
Crude Materials, inedible, including Fuels	194.4	11	170.4	13	99.9	12	70.5	13	24.0	9
Chemicals	191.6	11	133.7	9	96.5	11	37.2	7	57.9	20
Manufactured Goods	695.7	41	529.0	37	315.3	36	213.7	39	166.6	59
Of Which - Iron and Steel	(423.1)	(25)	(337.5)	(24)	(181.4)	(21)	(156.0)	(28)	(85.7)	(30)
Machinery and Transport Equipment	386.7	23	354.4	25	171.3	20	183.1	33	32.4	11
Other & Miscellaneous Transactions	19.1	1	17.6	1	13.4	1	4.2	1	1.5	0.5

1/ Data for Japan are for year 1960.

NOTE: Figures may not add to totals because of rounding.

SOURCE: OEEC Statistical Bulletin, Series C. January-September 1960. Foreign Trade of Japan 1960.